

**Department of Transportation and Public Facilities
Impact Statements in Response to
House Finance Committee's CSSS HB 75 (Fin)
Date: 4/04/03**

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| Program Area: Marine Highway Stabilization | Dollar Amount(s): (\$5,021.0) | Fund Source(s): General Funds |
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Impact Analysis:

The FY04 budget request for the Alaska Marine Highway System (AMHS) is critical to effective operations and is essential to maintain the current AMHS level of service.

If the General Fund request is funded at the \$32,000,000 level, an effective cut of \$5,021,000 from the Governor's request, a number of consequences will occur:

- The Marine Stabilization fund will be drawn to a zero balance at the end of FY04;
- A \$3 surcharge will be placed on all tickets for passengers, vehicles and cabins effective September 1st for the remainder of the fiscal year. Fares were increased in May 2002 (10% passenger, 5% vehicle, 10% cabin) and will be furthered increased in May 2003 (5% passenger, 5% cabin).
- No funding contingency will be available to accommodate any unforeseen operational circumstance;
- The potential is high that the Department will be forced to reduce service should unanticipated expenses occur.

The Governor's FY04 budget request proposes an operating level of 314.5 weeks, a 4% reduction in service weeks from the current year.

Operating with no contingency planning with a \$86,000,000 operating budget is unrealistic. Common practice indicates that some reserve should be in place to accommodate unanticipated expenses such as spikes in fuel costs, increased overhaul and lay-up costs, etc. Further examples of unanticipated expenses experienced in the past include the ferry strike, Malaspina blockade and the Columbia fire.

There is an initiative by the travel industry and the State Legislature to produce a two-year schedule to permit advance planning by travel groups. Adhering to a two-year schedule clearly requires a reserve to address contingencies. The Stabilization Fund is the AMHS's contingency. Without a contingency a two-year schedule is not realistic. Without a contingency, any unanticipated expenses such as mentioned above allow no option other than reducing service. Reducing service incurs costs without the benefit of revenue generation.

Reducing service will have a negative effect on all the major population centers of Alaska. Over 150,000 non-resident visitors used the Marine Highway during the summer of 1999; 46% of these visited Anchorage, 35% Matsu/Denali, 35% Fairbanks, 31% the Kenai Peninsula, and 17% Valdez.